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નિકલ પુરુષ / દ્વારા ઇંગ્લિશ વિરાસત કાર્યાલય  
ادارة التحليل لشؤون الشرق الأوسط و جنوب آسيا  
המחלקה לעז'ינייה המזרחה והיכולה ודרות אסיה  
اداره تجزيه و تحليل خاور ميانه و جنوب آسيا  
Office of Near Eastern and South Asian Analysis  
Directorate of Intelligence

24 January 1985

NOTE FOR: ADDI

Dick,

*Good  
package  
P.S.*

Attached is the package of briefing materials we propose providing to support preparation for the mid-February visit of Saudi King Fahd. We intend for it to go to PDB principals and senior working level officials involved in the visit.

If you approve the package, CPAS will duplicate and collate the materials this weekend, so it will be ready to disseminate Monday, 28 January. The format of the package will be similar to that done for the visit of Prime Minister Nakasone.

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To the  
 Attached is  
 what we  
 put up and  
 sent up and  
 ADDI's current  
 "good package".  
 I will get you  
 a copy of the  
 briefing package  
 early next  
 week. You may  
 want to include  
 your thoughts  
 on the package.  
 Your thoughts  
 would be welcome.  
 Thank you.

Chief, Persian Gulf Division

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SUBJECT: Saudi Oil Policy

Distribution:

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OGI/SRD/PRB [ ] (7 Feb 85)

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Washington, D.C. 20505

## DIRECTORATE OF INTELLIGENCE

28 January 1985

## Saudi Oil Policy

Summary

Saudi Arabia's oil strategy is to maximize and protect its oil derived wealth, to promote its influence within OPEC, and to maintain the unity of the oil cartel. The Saudis presently are trying to preserve market stability by pressing OPEC members to adhere to official prices and production quotas. Strong competition among oil exporters has stymied Saudi efforts, however. If OPEC is unable to agree soon on a realistic production and pricing policy, Riyadh may distance itself from the organization and adopt a more independent stance.

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In general, Saudi Arabia implements its oil policy by:

- Maintaining a large productive capacity and the willingness to vary oil output to moderate sharp oil price movements.
- Using its leadership within OPEC to extend Saudi production and pricing goals to include over half the non-Communist world's oil productive capacity.

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This paper was prepared by [redacted] Office of Global Issues. Comments and queries are welcome and may be directed to the Chief, Strategic Resources Division, OGI, on [redacted]

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Although Riyadh engineered a drop in official OPEC prices in 1983, the Saudis generally support OPEC market prices as long as members adhere to pricing and production guidelines. The Saudis assume this tack partly because of their leadership role in the organization. We believe, however, that Riyadh is motivated by a more fundamental concern about the danger of an unchecked oil-price rundown that could damage the economies of oil exporting countries and disrupt world financial markets. Riyadh might threaten strong unilateral action in an effort to ensure that OPEC members adhere to the cartel's agreements on production and pricing controls, but the Saudis are extremely reluctant to pursue a strategy that could provoke an unchecked price war.

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Riyadh has had difficulty maintaining its leadership role within OPEC because Saudi interests often diverge from those of the other members, particularly those countries having smaller oil reserves and large revenue needs. Past Saudi actions have aroused resentment and criticism, and many members believe the Saudis manipulate OPEC policies solely for their own benefit. Consequently, Saudi ability to exert influence over other members is limited, particularly in the current soft oil market when competition among exporters is especially strong.

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Although OPEC has been cohesive in times of trouble, this has been due largely to Saudi accommodation. Since 1981 Riyadh has allowed its annual oil production to drop over 5 million b/d. The Saudis, however, may soon reach the point at which they are no longer capable or willing to lower oil production unilaterally in order to support OPEC's current price structure. We believe the Saudis will continue to seek a workable solution to OPEC's problems, but if no effective compromise can soon be achieved, Riyadh may distance itself from the organization and take a more independent stance on oil production and prices.

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Under extreme circumstances Riyadh might use its oil influence to exert political pressure. The Saudis, however, have a good understanding of the limitations of the "oil weapon," especially in the current soft oil market. They have acquired a much larger financial and strategic stake in avoiding oil policies that might hurt or alienate the West. The Saudis use their moderate image on oil matters to influence Western views on non-energy issues of importance to Riyadh. Riyadh also looks to the West--specifically the United States--to protect Saudi Arabia's security. Moreover, the Saudis want to avoid provoking a sharp deterioration of Western economies that could erode significantly the value of Saudi foreign assets.

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